

Tom Gravel
Sales Mgr
Bauer Shoes
Kitchener



IRWIN TOY LIMITED

ANNUAL REPORT FOR THE YEAR ENDED JANUARY 31, 1977

FINANCIAL HIGHLIGHTS

	1977	1976
Total assets	\$22,104,342	\$21,138,648
Net sales — Irwin Toy	\$22,705,379	\$18,232,055
Net sales — Irwin Toy and Joint Ventures	\$36,996,042	\$31,570,789
Net earnings before extraordinary item	\$ 365,983	\$ 362,792
Extraordinary item — gain on disposal of property		\$ 402,883
Net earnings	\$ 365,983	\$ 765,675
Retained earnings	\$ 6,141,127	\$ 6,019,424
Earnings per share before extraordinary item	\$0.15	\$0.15
Earnings per share after extraordinary item	\$0.15	\$0.31
Working capital	\$ 6,721,583	\$ 7,032,199
Shareholders' equity	\$ 7,011,487	\$ 6,889,784
Number of shares outstanding	2,442,800	2,442,800

DIRECTORS & OFFICERS

Directors

Louis Boaretti
Edward J. M. Huycke, Q.C.
Arnold B. Irwin
Beatrice I. Irwin
S. Macdonald Irwin
C. Edward Medland

Officers

Arnold B. Irwin, President
S. Macdonald Irwin,
Executive Vice-President
Louis Boaretti, Vice-President
Finance and Secretary
John Chilvers, Vice-President and
General Manager — Wholesale Division
Jack Dyson, Vice-President — Sales

Auditors

Harbinson, Glover & Co., Toronto

Solicitors

Osler, Hoskin & Harcourt, Toronto

Transfer Agent & Registrar

The Royal Trust Company
Montreal, Toronto, Winnipeg,
Calgary and Vancouver



Arnold B. Irwin, President

REPORT TO SHAREHOLDERS

Gross sales of the Company reached \$23,430,564 for the year ended January 31, 1977, an increase of 24% over the previous year. The combined gross sales of your Company together with the 50% owned joint venture companies amounted to \$38,501,833, an increase of 15%.

Net earnings were \$365,983 or 15¢ per share compared to \$362,792 last year, before the extraordinary item.

The year's operations were adversely affected by the low margin and poor weather experienced by the pool division; also, generally by some late delivery problems last Christmas. For the ensuing year Management is seeking improved margins on pools and is undertaking earlier factory production to facilitate Christmas delivery.

Shareholders may note the large increase in interest on long-term debt. To a large degree the equivalent cost last year was represented by rent, an expense not itemized in the statement.

During the year your Company obtained a contract for the distribution of products featuring the Toronto Blue Jays Baseball Club. The response to these products, planned as a replacement for the Olympic lines, has exceeded all expectations and shows strong future potential.

The 1977 Toy Show bookings were satisfactory and were higher than those for the previous year.

Substantial costs are being incurred by your Company to make all its products fully bilingual, a move in the interests of Canadian unity, which is commended to all our employees, shareholders and customers.

On behalf of our Management I want to express sincere thanks to all our dedicated employees.

A handwritten signature in blue ink, appearing to read "A. B. Irwin". The signature is fluid and stylized, with a long horizontal stroke at the end.

A. B. Irwin
Toronto, Ontario
May 26, 1977



NEW PRODUCTS FOR 1977

S. Macdonald Irwin, Executive Vice-President

"Our company is in the fortunate position of having a broad list of toys which continue to sell well year after year. In addition, our rate of successful new product launches is probably the best in the industry. Among the reasons for this is the fact that our world-wide contacts and U.S. affiliations help us provide the Canadian market with products that have already proven their popularity. A few of our new items are shown here".



Stretch Armstrong is a fascinating 13" muscle man whose shape can be manipulated into hundreds of different positions and lengths and still return to its original size.



Othello has started to sweep the world as the brain game that can be addictive for everyone from age 8 up. International world champions attest to its popularity.



The new Nite Glow Double Loop Racing set provides the realism and thrills of hi-speed cars and shining headlights cutting through the dark of night.



Now popular Thumbelina is a wake-up baby. On command she moves her head, body and arms as she wakes up and turns over just like a real baby.



Snoopy's Scooter Shooter combines the popularity of this well-loved character with zippy action of motor-bike jumps. It's bound to be a favourite of youngsters.

TOY MARKETING IN CANADA

Quality is the life blood of toy marketing. Today's demanding consumers include not only discerning parents seeking good value but a sophisticated generation of children who are quick to reject the mediocre and insist on imaginative toys of sound

design and workmanship. But producing toys to meet the increasingly high standards of our customers — trade and consumer — involves many other considerations. Your company also works aggressively in these other areas.



Irwin Toy employs independent researchers to ascertain consumer attitudes and buying habits, preferences and intentions, all with a view to providing successful products for the market place.



The attractive, eye-catching packaging that is so important at the point-of-purchase also provides workers an opportunity for one last quality check. Some of Canada's most popular toys pass along this packaging line.



Literally thousands of Irwin toys are attractively arranged in our 25,000 feet of buyer's showrooms. Complete with audio/visual selling aids such amenities benefit sales and enhance customer satisfaction.



Calling attention to our products, Irwin Toy is Canada's largest toy advertiser. National magazines and popular TV shows provide family enjoyment and an opportunity for everyone to finalize important decisions on Christmas and birthday gifts.

THE IRWIN GROUP — More than just toys

Over the years, Irwin Toy Limited has grown substantially (see next page) and much of the impetus has come from acquisition and expansion into non-toy areas. Providing satisfaction for the leisure and recreational hours of millions of

Canadians has seen diversification with purpose. . . increased sales with reduced dependency on any single factor of our business. The Irwin Group now represents shareholder interests in a wide variety of endeavours.



The in-ground and above-ground pools are recognized for value from coast-to-coast. Sold by Irwin Pools, a division of the Irwin Group, these products plus pool accessories and outdoor furniture continue to grow in popularity.



Canada's largest selling line of backyard swings, slides and gyms all carry the familiar Irwin Gym-Dandy name. Built to be tougher than kids, Gym-Dandy is sold by most major retailers.



No matter what sports activity is called for, chances are Irwin Sports have a product to satisfy the need. Balls, bats and racquets, fins, masks and snorkels.



Another member of the Irwin Group is Canada's leading distributor of souvenir, gift and specialty items. Irwin Specialties are also exclusive holders of the rights to manufacture and sell all products bearing the Toronto Blue Jays symbol — and already the demand is extraordinary.

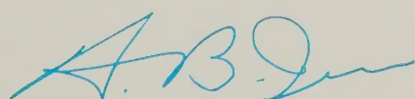
IRWIN TOY LIMITED

BALANCE SHEET

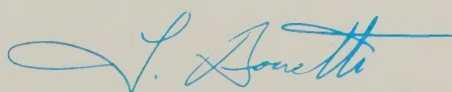
as at January 31, 1977

ASSETS	1977	1976
<i>Current:</i>		
Accounts receivable	\$ 3,837,404	\$ 3,916,329
Inventories, at lower of cost and net realizable value	7,740,485	7,003,434
Prepaid expenses	584,261	393,094
	<u>12,162,150</u>	<u>11,312,857</u>
<i>Life insurance:</i>		
Cash surrender value	266,328	237,062
<i>Investments:</i>		
Joint venture companies 50% owned	1,541,475	1,394,313
<i>Fixed:</i>		
Land, buildings, plant and equipment at cost less accumulated depreciation of \$1,612,149 (1976 - \$1,192,582)	<u>8,134,389</u>	<u>8,194,416</u>
	<u>\$22,104,342</u>	<u>\$21,138,648</u>
 LIABILITIES	 1977	 1976
<i>Current:</i>		
Bank indebtedness (secured)	\$ 2,396,180	\$ 1,171,783
Accounts payable and accrued liabilities	2,508,586	2,358,545
Income and other taxes payable	174,363	473,391
Current portion of long-term debt	361,438	276,939
	<u>5,440,567</u>	<u>4,280,658</u>
Long-term debt (note 2)	9,260,288	9,622,206
Deferred income taxes	392,000	346,000
	<u>15,092,855</u>	<u>14,248,864</u>
 SHAREHOLDERS' EQUITY		
<i>Capital stock (note 3)</i>		
Authorized:		
6,000,000 Class A convertible common shares without par value		
6,000,000 Class B convertible common shares without par value		
1,000 Class C common shares without par value		
Issued and fully paid:		
1,444,776 Class A shares (1976 — 1,487,276)		
998,024 Class B shares (1976 — 955,524)		
<u>2,442,800</u>	<u>2,442,800</u>	<u>840,667</u>
Contributed surplus	29,693	29,693
Retained earnings	6,141,127	6,019,424
	<u>7,011,487</u>	<u>6,889,784</u>
	<u>\$22,104,342</u>	<u>\$21,138,648</u>

Approved on behalf of the Board:



A. B. IRWIN, Director



L. BOARETTI, Director

IRWIN TOY LIMITED

STATEMENTS OF EARNINGS

year ended January 31, 1977

	EARNINGS (note 1)		COMBINED EARNINGS (note 1)	
	1977	1976	1977	1976
Gross sales of products and services	\$23,430,564	\$18,961,027	\$38,501,833	\$33,368,657
Sales tax	725,185	728,972	1,505,791	1,797,868
	<u>22,705,379</u>	<u>18,232,055</u>	<u>36,996,042</u>	<u>31,570,789</u>
Cost of products and services, selling, distribution and administrative expenses	20,862,877	17,403,987	34,574,070	29,927,659
Depreciation	419,566	333,861	453,417	382,039
Interest on long-term debt	1,001,115	169,522	1,001,115	169,522
	<u>22,283,558</u>	<u>17,907,370</u>	<u>36,028,602</u>	<u>30,479,220</u>
Earnings before income taxes	<u>421,821</u>	<u>324,685</u>	<u>967,440</u>	<u>1,091,569</u>
Income taxes:				
Current	157,000	70,816	408,295	399,816
Deferred	46,000	107,519	46,000	112,519
	<u>203,000</u>	<u>178,335</u>	<u>454,295</u>	<u>512,335</u>
Earnings before undernoted	<u>218,821</u>	<u>146,350</u>	<u>513,145</u>	<u>579,234</u>
Equity in net earnings of companies 50% owned (note 1 (a))	147,162	216,442		
Equity in net earnings of companies 50% owned attributable to other shareholders (note 1 (b))			147,162	216,442
Net earnings before extraordinary item	<u>365,983</u>	<u>362,792</u>	<u>365,983</u>	<u>362,792</u>
Extraordinary item—gain on disposal of property		402,883		402,883
Net earnings for the year	<u>\$ 365,983</u>	<u>\$ 765,675</u>	<u>\$ 365,983</u>	<u>\$ 765,675</u>
Shares issued and outstanding	2,442,800	2,442,800	2,442,800	2,442,800
Net earnings per share:				
Before extraordinary item	\$0.15	\$0.15	\$0.15	\$0.15
After extraordinary item	\$0.15	\$0.31	\$0.15	\$0.31

STATEMENT OF RETAINED EARNINGS

year ended January 31, 1977

	1977	1976
Retained earnings at beginning of year	\$6,019,424	\$5,498,029
Net earnings for the year	<u>365,983</u>	<u>765,675</u>
	<u>6,385,407</u>	<u>6,263,704</u>
Dividends—Class A and Class B convertible common shares	229,610	229,941
15% tax paid on 1971 undistributed income	<u>14,670</u>	<u>14,339</u>
	<u>244,280</u>	<u>244,280</u>
Retained earnings at end of year	<u>\$6,141,127</u>	<u>\$6,019,424</u>

IRWIN TOY LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

year ended January 31, 1977

	1977	1976
Sources of working capital:		
Net earnings before extraordinary item	\$ 365,983	\$ 362,792
Deduct: Equity in net earnings of companies 50% owned	147,162	216,442
	218,821	146,350
Extraordinary item — gain on disposal of property		402,883
Dividends from companies 50% owned		100,000
Depreciation on fixed assets	419,566	333,861
Deferred income taxes	46,000	107,519
Increase in long-term debt		9,502,341
	684,387	10,592,954
Applications of working capital:		
Increase in cash surrender value of life insurance	29,266	29,265
Building and equipment additions	359,539	6,865,624
Repayment of long-term debt	361,918	114,451
Dividends	229,610	229,941
15% tax paid on 1971 undistributed income	14,670	14,339
	995,003	7,253,620
Resulting in an increase (decrease) in working capital of	(310,616)	3,339,334
Working capital at beginning of year	7,032,199	3,692,865
Working capital at end of year	\$ 6,721,583	\$ 7,032,199

AUDITORS' REPORT

To the Shareholders of
IRWIN TOY LIMITED:

We have examined the balance sheet of IRWIN TOY LIMITED as at January 31, 1977 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at January 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the combined statement of earnings for the year ended January 31, 1977. In our opinion this combined statement presents fairly the results of the operations as described in note 1(b) on a basis consistent with that of the preceding year.

Toronto, Ontario,
April 28, 1977.

HARBINSON, GLOVER & CO.,
Chartered Accountants.

IRWIN TOY LIMITED

NOTES TO FINANCIAL STATEMENTS

1.(a) Summary of accounting policies:

As of February 1, 1976 the operations previously conducted by the wholly-owned subsidiaries, Transogram Canada Limited and Playco Limited were merged with those of Irwin Toy Limited. The 1976 comparative figures include the accounts of these former subsidiaries.

The Company owns one-half of the shares of Ideal Toy Company of Canada, Ltd., Kenner Products (Canada) Limited and Tyco Canada, Limited. These companies are of a joint venture nature. The Company provides the facilities and personnel for management, administration, manufacturing, sales and distribution. Other shareholders provide research, development, production tooling and consulting services. The Company follows the equity accounting principle under which net earnings include the Company's equity in the net earnings of all joint venture companies 50% owned; the investment in these companies has been increased by the Company's share of their undistributed earnings since acquisition and is reflected in the balance sheet at its equity in their underlying net tangible assets.

(b) Principles of combined statement of earnings:

In the combined statement of earnings the accounts of the Company are combined with the accounts of the joint venture companies 50% owned on a fully integrated basis. The net earnings attributable to the other joint venture shareholders reduce the combined earnings and are reflected as "Equity in net earnings of companies 50% owned attributable to other shareholders". It is the opinion of management that as the Company and the joint venture companies 50% owned operate together as a group, the results of operations are better disclosed on a combined basis.

(c) Inventories:

Inventory amounts are based upon physical determinations at the year end and have been stated at the lower of cost and net realizable value.

(d) Fixed assets and depreciation:

The Company records buildings, plant and equipment at cost. Depreciation is provided at appropriate rates to allocate original cost over the useful lives of the assets. Maintenance and repairs are charged against earnings as incurred.

(e) Income taxes:

Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates. Reported earnings differ from taxable income because of timing differences, principally depreciation which under income tax legislation currently exceeds the depreciation provided in the financial statements. The effect of such timing differences on income taxes otherwise payable is recognized as deferred income taxes.

2. Long-term debt:

	1977	1976
7-1/2% first mortgage due 1987 ¹	\$ 200,730	\$ 213,210
9% first mortgage due 1989 ²	4,135,101	4,167,737
11% second mortgage due 1980 ²	246,393	248,634
8-3/4% third mortgage due 1985 ²	739,502	748,564
9% mortgage due 1976 secured on fixed and other assets ¹		21,000
Term bank loan at prime bank rate plus 1-3/4% maturing 1983 secured on fixed and other assets ³	4,300,000	4,500,000
	9,621,726	9,899,145
Less: Current portion due within one year	361,438	276,939
	<u>\$9,260,288</u>	<u>\$9,622,206</u>

¹ Secured on Hanna Avenue, Toronto property.

² Secured on North Queen Street, Etobicoke property, acquired November 7, 1975.

³ Arranged January 30, 1976.

On the foregoing long-term debt, aggregate payments of principal required in each of the next five years are as follows:

\$361,438 in 1978	\$466,908 in 1979
\$907,813 in 1980	\$873,928 in 1981
\$982,621 in 1982	

3. Capital Stock:

(a) The Class A convertible common shares and Class B convertible common shares are fully voting, are convertible into each other on a one-for-one basis and rank equally in all respects. The only distinction between the two classes of shares is that the directors may, in declaring a dividend on the Class B shares, specify that the dividend shall be paid out of tax-paid undistributed income in which case the dividend received by the Class B shareholders is 85% of the amount of the ordinary dividend received at the same time by the Class A shareholders.

(b) In 1969, the Company reserved 120,000 unissued shares for the purpose of granting to certain officers and employees options to purchase shares of the Company at the market price of the shares on the date of granting of the option exercisable not later than five years from the option date. To January 31, 1977 a total of 42,800 shares were issued under this plan and options were outstanding as follows:

14,000 shares at \$10 3/8 per share expiring May 5, 1977.
31,000 shares at \$3.00 per share expiring April 17, 1980.
30,000 shares at \$2.18 per share expiring January 25, 1982.

4. Dividend restrictions:

The indentures and agreements relating to the Company's term bank loan limit the payment of dividends by the Company in any fiscal year to 40% of the net earnings of the preceding year, with a maximum of \$300,000 if such earnings are less than \$900,000. Under this restriction the dividends for the ensuing fiscal year may not exceed \$146,000.

5. Remuneration of directors and officers:

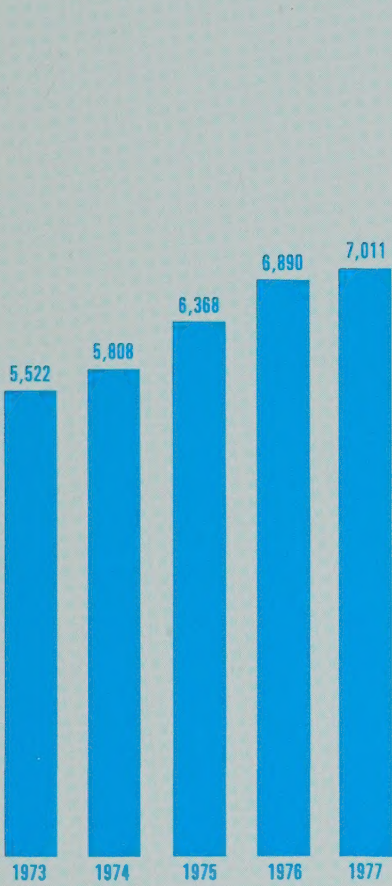
The aggregate direct remuneration of directors and senior officers of the Company for the year ended January 31, 1977 was \$197,675 (1976 - \$192,067).

6. Anti-inflation program:

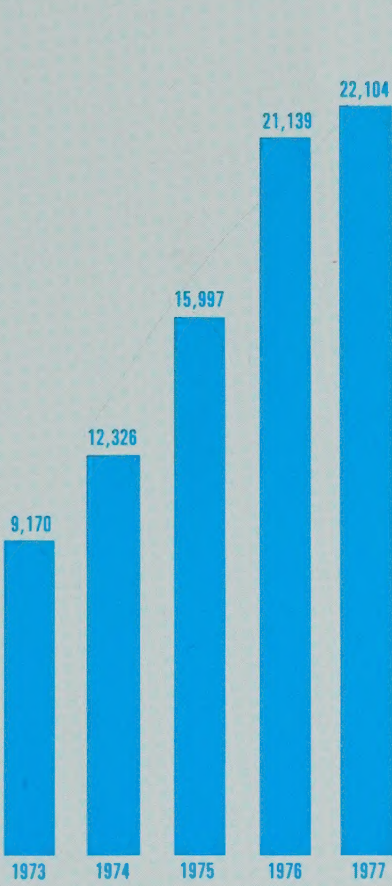
Under the federal government's anti-inflation program the Company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends.

IRWIN TOY LIMITED

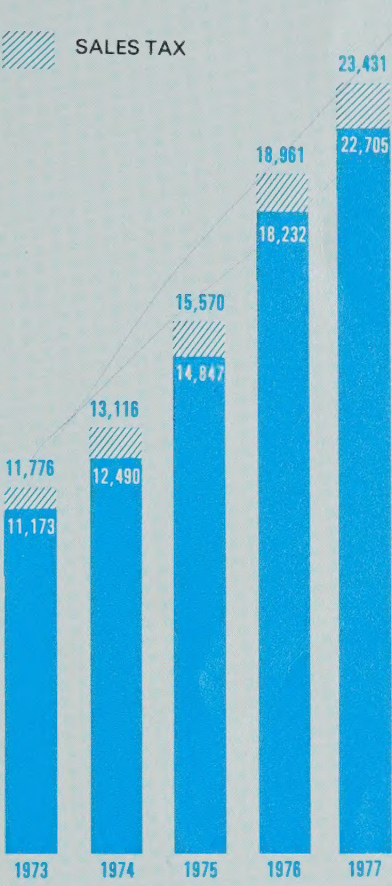
SHAREHOLDERS' EQUITY (\$000)



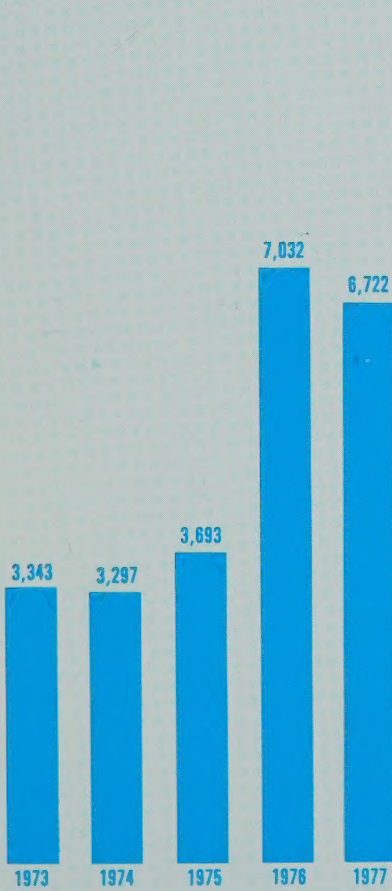
TOTAL ASSETS (\$000)



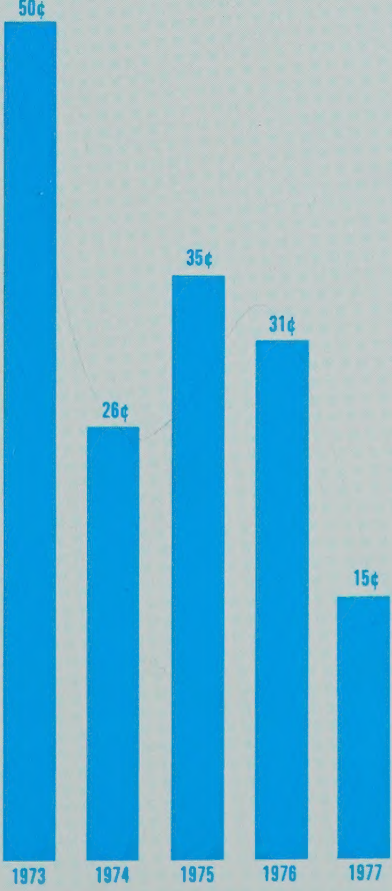
SALES—IRWIN TOY (\$000)



WORKING CAPITAL (\$000)



EARNINGS PER SHARE



SALES—
IRWIN TOY AND JOINT VENTURES (\$000)





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